



DEVELOPMENT OF FINANCIAL INCLUSION IN RURAL INDIA – A CONCEPTUAL ANALYSIS

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ABSTRACT

India is living in rural areas said by father of our nation. But, the peoples who are living in rural areas not really lived and they are constrained to live with some socio-economic factors. Even though, India is fast growing country as compared with rest of world in all respects except economic status of people. Beginning with First Five Year Plan in 1951, resources were deployed on areas like irrigation and energy, agriculture and community development, transport and communications, industrial development, social services, land development and infrastructure. Initially, the growth rates were around 3-4 per cent which gradually touched a peak of over 9 per cent. Despite economic turbulences, financial scams, population growth, natural calamities, wars, political disturbances, India witnessed several achievements in many areas in the last six decades. But still, there are people who are ignored by banks and financial institutions to get financial services and benefits. It is very important issue before the government to make them inclusive. So, the Reserve Bank of India has set up a commission (Khan Commission) in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic "no-frills" banking account. The Eleventh Plan (2007-12) document was divided into three volumes viz., (I) Inclusive Growth (II) Social Sector and (III) Agriculture, Rural Development, Industry, Services and Physical Infrastructure. It addresses on sustained growth and investment aiming at improvement in the quality of life. The percentage of population below the poverty line has come down from 36% in 1993-1994 to 28% in 2004-05 while defining the income. The present paper tries to analyze extent of financial inclusion in India, and evaluate financial inclusion scenario. It further tries to identify reasons of financial exclusion by considering demand side challenges rather than supply side challenges. To understand the people perception of financial inclusion in general context, a survey is conducted in this background it is worthwhile to study the role of banks in Financial Inclusion of the Poor in Karaikal Region, Pondicherry, because the Government of India implemented the pilot project on Financial Inclusion in Niravi in Karaikal Region. This pilot project has spread effect and all the banks at present have their own strategies for Financial Inclusion.

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INTRODUCTION

After more than sixty years after planned development in India, the rural transects are still facing impoverishment; a consequence of failure of trickle down of development efforts to the grass roots. In spite of planner's motivation to achieve development with equality popularly known as 'inclusive growth', the country has been facing wide regional disparities both between urban and rural and between regions. Poverty, a cause and consequence of under-development is a continuing issue to be tackled with. Rural indebtedness has been an agenda of discussion right from the time of independence. Safe, easy and affordable credit and other financial services to the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognized as a pre-condition for accelerating growth and reducing income disparities and poverty. Access to well-functioning financial system by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protects against economic shocks (RBI, 2009).

1.1 Meaning of Financial Inclusion

Financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low-income groups. In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more. Only 34% of Indian individuals have access to or receive banking services. In order to increase this number, the Reserve Bank of India had the Government of India take innovative steps. One of the reasons for opening new branches of Regional Rural Banks was to make sure that the banking service is accessible to the poor. With the directive from RBI, our banks are now offering "No Frill" Accounts to low income groups. These accounts either have a low minimum or nil balance with some restriction in transactions.

1.2 Review of Literature

Financial inclusion is important because it is considered as an important condition for sustaining growth (Subbarao, 2009). Such access is especially powerful for the poor as it provides the opportunity to build savings, make investments and avail credit. Access to financial services also helps the poor to insure themselves against income shocks and equips them to meet emergencies such as illness, death in the family or loss of employment. It helps them to get away from the clutches of usurious money lenders. Financial inclusion also permits governments to make payments such as social security transfers and National Rural Employment Guarantee Programme (NREGA) wages into bank accounts of beneficiaries.

1.3 A Conceptual Analysis of Financial Inclusion in Karaikal Region

A review of available literature on rural financial architecture on concepts, focus and studies in financial inclusion is presented in this paper. In this background it is worthwhile to study the role of banks in financial inclusion of the poor in Karaikal Region, Pondicherry, because the Government of India implemented the pilot project on financial inclusion in Niravi in Karaikal Region. The pilot project has spread effect and all the banks at present have their own strategies for financial inclusion.

1.4 Objectives of the Study

The present study has the following objectives.

- 1) To study the schemes and programmes of the sample banks of Financial Inclusion of the poor in the Karaikal Region.
- 2) To study the socio-economic background of the beneficiaries
- 3) To assess the impact of the financial inclusion programmes of the sample banks on the livelihood of the beneficiaries.
- 4) To analyze the impact of the financial inclusion programmes on the business profile of the sample banks, and
- 5) To suggest suitable measures for the sample banks for inclusive growth of the region.

METHODS

2.1 Methodology and Sampling

Survey method will be followed for the study. Both primary and secondary sources of data will be collected and used for the study. The data regarding the business profile of sample banks will be collected from the publications of Lead Bank. The performance of sample banks in financial inclusion will be collected from the records of the sample banks. Apart from these the publications of Reserve Bank of India, NABARD, Government of India, Government of Pondicherry and other documents will be referred to elicit the needed data for the study.

VARIOUS FORMS OF FINANCIAL EXCLUSION

Exclusion caused by physical distance, five forms of exclusion were identified by this study, viz, access exclusion, condition exclusion, price exclusion, marketing exclusion and self-exclusion.

| Form of Exclusion | Source of Access Restriction |
|---------------------|--|
| Access exclusion | Process of risk assessment |
| Condition exclusion | Conditions attached to financial products which are inappropriate for the needs of some people |
| Price exclusion | Pricing of financial products that make them unaffordable to some |
| Marketing exclusion | Targeted marketing and sales |
| Self-exclusion | Anticipation by some of refusal of application |

Source: FSA (2000)

There are a variety of factors imposing financial exclusion. For example in remote, hilly and sparsely populated areas with poor infrastructure, physical access itself acts as a deterrent. From the demand side, lack of awareness, low incomes/assets, social exclusion, literacy act as barriers. From the supply side, there are number of reasons for the rural poor remaining excluded from the formal banking sector, such as: (a) high transaction costs at the client level due to expenses such as travel costs, wage losses, incidental expenses, (b) documentation, (c) lack of awareness, (d) lack of social capital, (e) non availability of ideal products, (f) very small volumes / size of transactions which are not encouraged by formal

banking institutions, (g) hassles related to documentation and procedures in the formal system, (h) easy availability of timely and doorstep services from money lenders/informal sources and (i) prior experience of rejection by/indifference of the formal banking system (RBI, 2005).

3.1 Microfinance and Financial Inclusion

Despite the inability of the formal financial system to provide financial services to the poor, microfinance revolution has helped poor to unfold the “under-served” status, contributing to economic and social empowerment of poor particularly women (Yaron, 1994; Christen et al, 1995). Micro finance represents something more than micro credit. It is a financial service of small quantity provided by financial institutions to the poor. These financial services may include savings, credit, insurance, leasing, money transfer, equity transaction etc that is any type of financial service provided to customers to meet their normal financial needs, life cycle and economic opportunity and emergency with the only qualification that (i) the transaction value is small (ii) the customers are poor (Dasgupta, 2005). Micro credit thus becomes distinct from other regular credit where not only the credit amount is small and the clientele is poor, but also the credit is provide with collateral substitute instead of traditional collateral and non-financial services for increasing the productivity of credit.

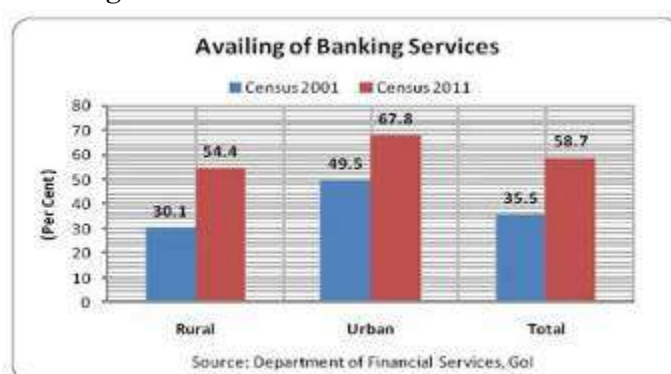
3.2 Financial Inclusion through Export Development by Micro Entrepreneurs

Financial inclusion of micro-entrepreneurs increases the productivity and profitability of their activities by funding their capital requirements and increasing their capacity to supply the consumption needs of industrial workers. In addition, greater financial inclusion of the industrial workers themselves can also contribute to export competitiveness. By accessing deposit services, industrial workers can be assisted to accumulate savings while efficient funds-transfer services can reduce wage pressures in the export sector and thereby act to maintain its international competitiveness.

3.3 Government of India Population Census 2011

- As per census 2011, only 58.7% households are availing banking services in the country. However, as compared with previous census 2001, availing of banking services increased significantly largely on account of increase in banking services in rural areas (Chart 1).

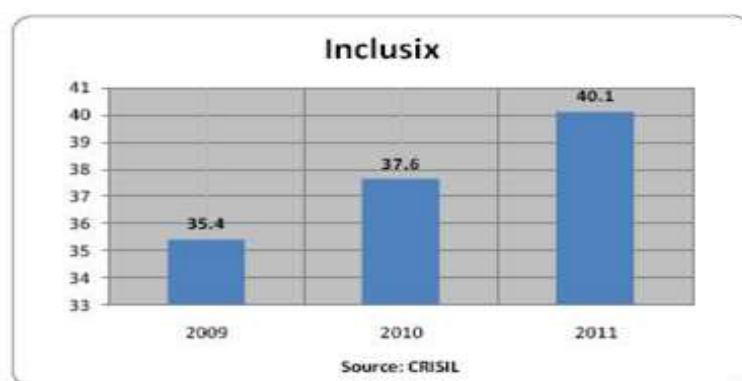
Chart 1: *Availing of Banking Services*



3.4 CRISIL Financial Inclusion Index (Inclusix)

- In June 2013, CRISIL first time published a comprehensive financial inclusion index (viz, inclusix). For constructing the index, CRISIL identified three critical parameters of basic banking services namely branch penetration, deposit penetration and credit penetration.
- The CRISIL inclusix indicate that there is an overall improvement in the financial inclusion in India (Chart 2).
- CRISIL – inclusix (on a scale of 100) increased from 35.4 in March 2009 to 37.6 in March 2010 and to 40.1 in March 2011.

Chart 2: CRISIL – Inclusix



3.5 Financial Inclusion – RBI Policy Initiatives

RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country. Further, for achieving the targeted goals, RBI has created conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts.

- 1) **Basic Saving Bank Deposit (BSBD)** Advised all banks to open accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card.
- 2) **Relaxed and Simplified KYC Norms** to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding Rs. one lakh a year. Further, banks are advised not to insist on introduction for opening bank accounts of customers. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address
- 3) **Simplified Branch Authorization Policy**, to address the issue of uneven spread bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers with population of less than 1 lakh under general permission, subject to reporting. In North-Eastern States and Sikkim domestic SCBs can open branches without having any permission from RBI. With the objective of further liberalizing, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centres, subject to certain conditions.

- 4) ***Compulsory Requirement of Opening Branches in Un-banked Villages***, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers.
- 5) ***Opening of Intermediate Brick and Mortar Structure***, for effective cash management, documentation, redressal of customer grievances and close supervision of BC operations, banks have been advised to open intermediate structures between the present base branch and BC locations.
- 6) ***Financial Literacy Centres (FLCs)*** in June 2012, revised guidelines, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e. 'Financial Literacy' and easy 'Financial Access'.

RECENT MEASURES

- **Licensing of New Banks:** The present round of licensing new banks is essentially aimed at giving further fillip to financial inclusion efforts in our country. Innovative business models aimed at furthering financial inclusion efforts would be looked into closely in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Dr. D Subbarao).
- **Discussion Paper on Banking Structure in India – The Way Forward:** The RBI has put out a discussion paper in August 2013 on Banking Structure for public comments. One of the main issues relates to "Differentiated Banking Licenses". The subject of licensing 'small banks and financial inclusion' has been discussed therein. A view will be taken by RBI after factoring in the comments/suggestions received from the general public.

CONCLUSION

Let me conclude by repeating what I have endeavored to convey about assessment of Financial Inclusion efforts in our country. I began with a brief introduction of the subject and provided two major definitions of Financial Inclusion. Thereafter, the important policy initiatives of RBI and progress achieved / identified trends in Financial Inclusion have been explained to assess where we stand at the present juncture. I tried to identify stakeholder-wise issues in Financial Inclusion, based on such an assessment as also on the basis of feedback received by us during our financial outreach programmes and the conferences of front line managers which we have been conducting for the past few years.

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